

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



**CORRECTED
FISCAL NOTE**

SB 99

February 17, 2011

SUMMARY OF BILL: Increases from \$1,000,000 to \$5,000,000 the single allowable exemption for state inheritance tax on estates of decedents dying in tax years 2011 and thereafter.

ESTIMATED FISCAL IMPACT:

On January 27, 2011, a fiscal note was issued estimating a fiscal impact as follows:

*Decrease State Revenue - \$14,682,000/FY11-12
\$58,728,000/FY12-13 and Subsequent Years*

This estimate erroneously assumed that no inheritance tax savings will be spent in the economy on sales-taxable goods and services. Based on the new assumption that 50 percent of inheritance tax savings will be spent in the economy on sales-taxable goods and services, the estimated impact is:

(CORRECTED)
**Decrease State Revenue – Net Impact - \$14,191,700/FY11-12
\$56,766,900/FY12-13 and Subsequent Years**

**Increase Local Revenue - \$207,100/FY11-12
\$828,500/FY12-13 and Subsequent Years**

Assumptions:

- Increasing the single allowable exemption to \$5,000,000 will match the state inheritance tax exemption to the federal inheritance tax exemption.
- Fiscal Review Committee staff has estimated inheritance tax collections to be \$98,000,000 and \$101,430,000 for FY10-11 and FY11-12 respectively.
- Inheritance tax collections in FY12-13 and subsequent fiscal years remain constant at \$101,430,000.
- Pursuant to Tenn. Code Ann. § 67-8-205, one-hundred percent of inheritance tax collections are deposited to the General Fund.
- An effective date of July 1, 2011.

SB 99 (CORRECTED)

- Pursuant to the nine-month filing extension authorized by Tenn. Code Ann. § 67-8-419(a), estates of decedents dying between July 1, 2011, and September 30, 2011, are processed during FY11-12. The estates of decedents dying between October 1, 2011, and June 30, 2011, are processed during FY12-13. The first-year impact (FY11-12) is estimated to be 25 percent of the first full-year impact (FY12-13).
- Based on information provided by the Department of Revenue, and from Monte Carlo simulations conducted by the Department, approximately 57.9 percent of inheritance tax revenue would be eliminated. The Fiscal Review Committee staff does not have access to the data and information upon which this calculation is based and cannot independently verify its accuracy.
- Fifty percent of tax savings is spent on other sales taxable goods and services.
- A state sales tax rate of 7.0 percent and an average local option sales tax rate of 2.5 percent.
- The decrease to inheritance tax revenue in FY11-12 will be \$14,681,993 ($\$101,430,000 \times 57.9\% \times 25.0\%$).
- The increase to state sales tax collections in FY11-12 will be \$513,870 ($\$14,681,993 \times 50.0\% \times 7.0\%$).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments are apportioned a 4.5925 percent share of all state sales tax revenue as state-shared sales tax.
- The increase to local government revenue for FY11-12 will be \$207,124 [$(\$513,870 \times 4.5925\%) + (\$14,681,993 \times 50.0\% \times 2.5\%)$].
- The net decrease to state revenue in FY11-12 will be \$14,191,722 [$\$14,681,993 - (\$513,870 - (\$513,870 \times 4.5925\%))$].
- The recurring decrease to inheritance tax revenue beginning in FY12-13 will be \$58,727,970 ($\$101,430,000 \times 57.9\%$).
- The recurring increase to state sales tax collections beginning in FY12-13 will be \$2,055,479 ($\$58,727,970 \times 50.0\% \times 7.0\%$ current state sales tax rate).
- The recurring increase to local government revenue beginning in FY12-13 will be \$828,497 [$(\$2,055,479 \times 4.5925\%) + (\$58,727,970 \times 50.0\% \times 2.5\%)$].
- The net recurring decrease to state revenue beginning in FY12-13 will be \$56,766,888 [$\$58,727,970 - (\$2,055,479 - (\$2,055,479 \times 4.5925\%))$].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc